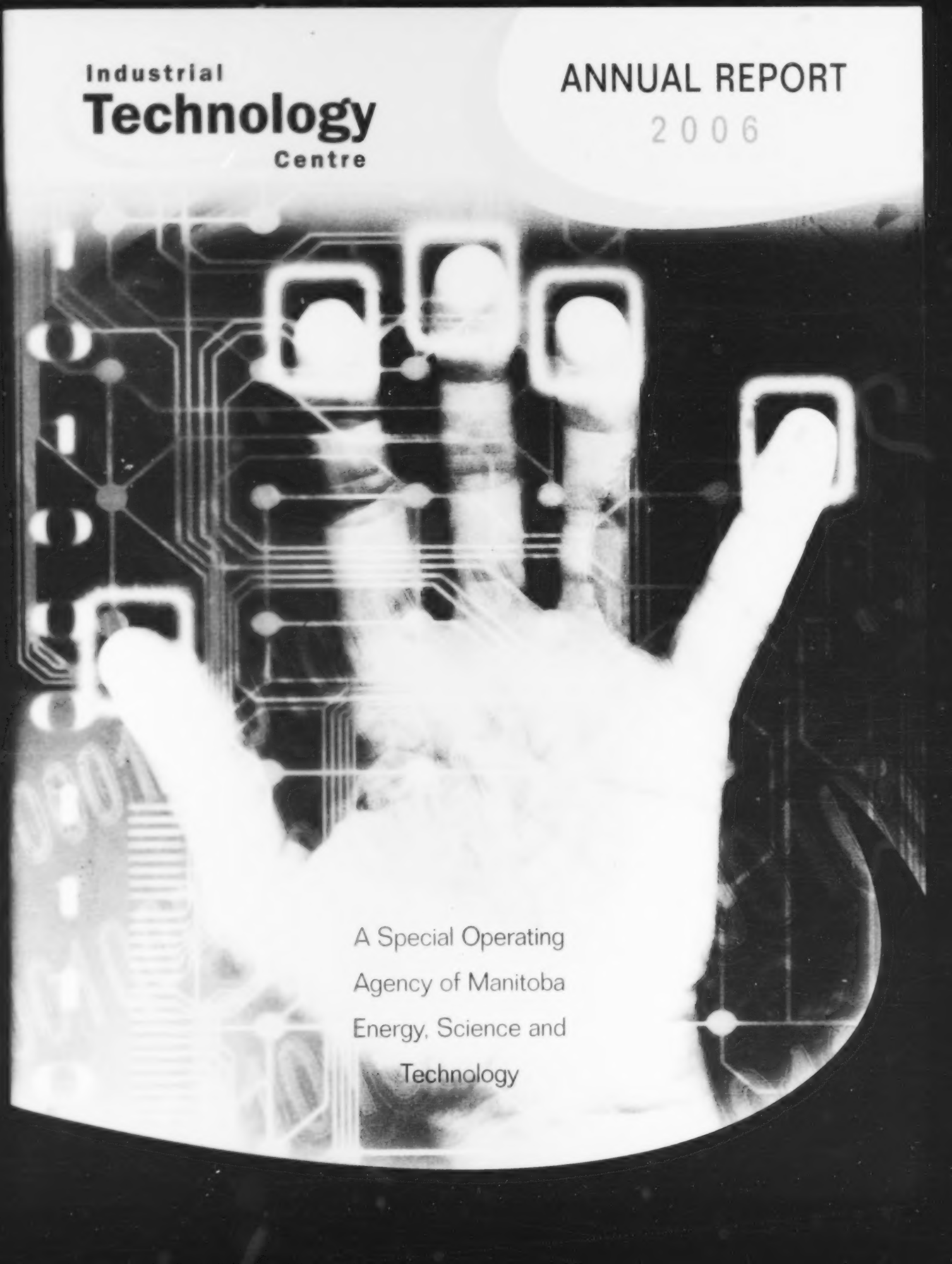


Industrial
Technology
Centre

ANNUAL REPORT
2006



A Special Operating
Agency of Manitoba
Energy, Science and
Technology

**"Your excellent customer service attitude
is to be commended."**

Al Stadnyk, Loewen Windows



2007-01522/

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" I would like to commend the organization
on their services. "

Client survey response

Minister's Letter of Transmittal

June 30, 2006

The Honourable John Harvard
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

Your Honour:

I have the privilege of presenting the Annual Report of the Industrial Technology Centre
for the year ended March 31, 2006.

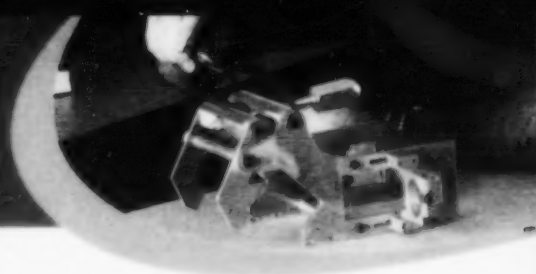
Respectfully submitted,

David Chomiak
MINISTER OF ENERGY, SCIENCE
AND TECHNOLOGY

Industrial
Technology
Centre

" ITC has helped us reduce material costs by lightening the product and altering the design. "

Client survey response



Deputy Minister's Letter of Transmittal

June 30, 2006

Honourable David Chomiak
Minister Responsible for the
Industrial Technology Centre
Room 333 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Chomiak:

I am pleased to submit for your consideration the Annual Report of the Industrial Technology Centre (ITC) for the year ended March 31, 2006.

On November 1, 2005, ITC relocated to a new facility at Smartpark. This move will help ITC strengthen its relationship with the University of Manitoba in areas such as collaborative industrial research and training. ITC is leasing space to the Composites Innovation Centre (CIC), and is working closely with CIC to help build a cohesive manufacturing and materials cluster at Smartpark. ITC will continue to seek and establish partnerships with the education, research and manufacturing stakeholders.

ITC is a key participant in the "Advanced Manufacturing Initiative" (AMI), a joint partnership between stakeholders from industry, government and educational institutions. ITC is providing training seminars in product development, and will promote and demonstrate how the adoption of advanced manufacturing technologies can help improve manufacturing productivity.

ITC continues to support technology-based economic development through the provision of a broad range of technical services. Services are primarily focused on Manitoba's manufacturing sector, and client feedback indicates that ITC is well respected for the high-quality services it provides.

I would like to thank our Advisory Board for their continued contributions and commitment, and all staff for their hard work and dedication that make ITC a success.

Respectfully submitted,

John Clarkson
DEPUTY MINISTER ENERGY, SCIENCE &
TECHNOLOGY AND CHAIRPERSON OF THE
INDUSTRIAL TECHNOLOGY CENTRE
ADVISORY BOARD

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“ ITC has helped with improved processes, reducing turnaround time to get the product out faster. ”

Client survey response

Message from the Chief Operating Officer

June 30, 2005

On behalf of staff, I am very pleased to report on the achievements of the Industrial Technology Centre (ITC) for the year ended March 31, 2006.

ITC has completed another successful year, increasing project revenues and investing in new design and analysis technologies to meet the needs of Manitoba industry. Surveys indicate that clients continue to be very satisfied with our project performance and recognize ITC to be an excellent technical resource. The significant economic development impacts reported by clients demonstrate ITC's commitment to serving local industry.

ITC maintains accreditation by the Standards Council of Canada (SCC) and the Calibration Laboratory Assessment Service (CLAS), as well as registration to ISO 9001. Clients appreciate that ITC is able to demonstrate conformance to recognized standards and provide traceable project results.

ITC's relocation to Smartpark on November 1, 2005 was a significant milestone in ITC's 25-year history. ITC will help build a manufacturing and materials cluster at Smartpark and strengthen relationships with the University of Manitoba. ITC is leasing space to the Composites Innovation Centre (CIC) and is working closely with CIC on a variety of industrial projects. We continue to be a key partner in the "Advanced Manufacturing Initiative" that is aimed at improving the productivity of Manitoba's manufacturing sector.

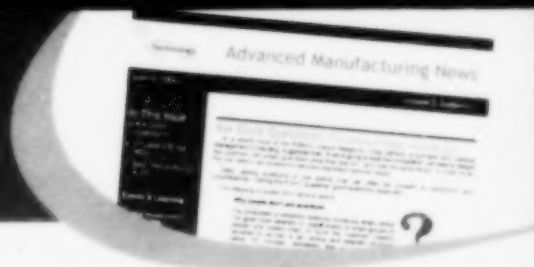
Our success is due to the successful partnerships we have established with numerous stakeholders. I would like to thank staff for their continued dedication, and our Advisory Board for their commitment and support of ITC.

Trevor Cornell
CHIEF OPERATING OFFICER

Industrial
Technology
Centre

" I have enjoyed your newsletter very much. It is informative and topical. We receive a number of email newsletters, and yours is one of the best. Well Done! "

*Don Keatch,
Chief Operating Officer, Ounniglaw Ltd.*



1 Agency Profile

1.1 Background

The Industrial Technology Centre (ITC) was established in 1979 and commenced operations as a Special Operating Agency (SOA) of the Province of Manitoba on April 1, 1996. ITC now operates under the authority of Manitoba Energy, Science and Technology (ES&T).

The Deputy Minister of ES&T chairs ITC's Advisory Board, which includes private sector representatives. The Board provides advice regarding ITC's strategic direction, structure, mandate, business practices, marketing, and financial reporting requirements.

ITC provides a wide range of technical services in support of technology-based economic development in Manitoba. ITC customers include Manitoba industry, entrepreneurs, and government departments and agencies. Services are provided on a fee for service basis and under an Economic Development Contribution Agreement (EDCA). The EDCA is a performance contract with ES&T to support ITC's contribution to economic development activities in Manitoba. Clients seeking specific technical assistance may be existing or start-up enterprises, and range in size from individuals to large corporations.

ITC's services are categorized as:

- Technical Information and Advisory Services
- Engineering
- Document Examination Services (DES)
- Virtual Reality Centre (VRC)

The economic development contribution from the Province is used to support technical information and advice, library services, and infrastructure for testing, product development, and the Virtual Reality Centre. These services support SMEs (small and medium-sized enterprises) that have limited R&D resources.

1.2 Vision, Mission and Goals

ITC'S VISION IS

"To be recognized as the best resource for solving technical issues for the benefit of Manitoba"

ITC'S MISSION IS

"As a team and in partnership with our customers, we are committed to provide creative technical solutions for the economic development of Manitoba"

ITC'S GOALS, essential to fulfillment of its mission, are as follows:

- To help our clients anticipate, identify and apply appropriate technologies
- To support and contribute to economic development in Manitoba
- To sustain and enhance client relationships by providing high-quality, valued technical services
- To achieve long-term economic viability
- To cultivate a work environment that promotes employee achievement, creativity, initiative and growth.

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“ ITC has helped with improved product quality by providing stress analyses for us. ”

Client survey response

1 Agency Profile

Service Lines

Technical Information and Advisory Services

ITC plays an important economic development role in Manitoba by providing technical advice and assistance to Manitoba industry, entrepreneurs and government departments and agencies. ITC is recognized as a critical part of the technical infrastructure required to help individuals and companies increase their competitiveness by developing new or improved products and processes. All ITC's technical staff provide technical information and advisory services (Technology Transfer) on an as requested basis.

ITC helps clients to define and understand technical issues, to develop methods of solving technical problems and frequently assists in the implementation of solutions. In support of these activities, ITC uses its network of contacts and experts across Canada for technical advice and assistance that may not be available in Manitoba.

ITC has a technical library that provides crucial information and support to ITC staff and clients. The library houses a comprehensive collection of books, journals and reports in areas such as manufacturing, product and process engineering and materials. A range of industrial directories, guides and catalogues assist clients in sourcing components, equipment and services. ITC also has access to many worldwide databases, and has a public Internet access terminal for clients to source technical data.

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ITC continues to develop its "Excellence in Manufacturing" Information Centre, which provides an enhanced library collection in current and new manufacturing technologies and philosophies, such as "Lean Production". ITC publishes manufacturing newsletters, technology updates, and delivers technical awareness workshops.

Customers include inventors, entrepreneurs, and companies in most manufacturing sectors in Manitoba. Easy access for the public, on-line links to international databases and skilled staff make ITC's library an invaluable resource.

Engineering

* MECHANICAL TESTING

Mechanical Testing services are categorized as either Standard or Custom, defined as:

Standard Testing: Those tests that may be described as routine and undertaken (or priced) on a per sample basis. Tests include the measurement of such properties as hardness, impact resistance and strength. The Materials Testing Laboratory has been granted accreditation by the Standards Council of Canada (SCC) for specific tests, which is recognition of ITC's high standard of competence and credibility.

Custom Testing: Testing for which there may be no defined standard. ITC staff will help the client determine what properties or parameters are to be tested, and will identify or develop appropriate procedures to meet testing requirements. Examples include:

- Testing products or materials when no industry standard exists
- Testing components in their service environment

“ For a recent aerospace materials testing project, ITC provided material testing services. The testing and reporting was completed in a professional and timely manner that allowed the Composites Innovation Centre to meet its customer's expectations. ”

Michael Hudak, M.Sc., P.Eng., Composites Innovation Centre



1 Agency Profile

* DIMENSIONAL CALIBRATION

ITC is the only facility in Western Canada to offer accredited dimensional calibration services. The Calibration Laboratory Assessment Service (CLAS), jointly administered by the SCC and the National Research Council (NRC), has accredited and certified our calibration laboratory's technical capabilities and quality program.

Calibration services include the dimensional calibration of gauge blocks, micrometers, calipers, thread wires, thread plugs, thread rings, plain ring and plug gauges, discs, pins, snap gauges, length and height standards, and dial gauges, as well as pressure gauges up to 10,000 psi.

* DIMENSIONAL INSPECTION

ITC's inspection capabilities include a Numerex coordinate measurement machine (CMM) and a FaroArm portable multi-axis measurement arm. Inspection services include detailed physical inspection of parts, comparison of components to CAD drawings and specifications, reverse engineering of assemblies, and part-to-part comparisons.

* MACHINE/PRODUCT DESIGN

ITC's advanced modelling and analytical software allows us to undertake a wide range of design activities. This includes the 3D design of components and complex assemblies, structural analysis of both linear and nonlinear systems, as well as composite materials, and prediction of a system's vibration response to dynamic input forces. Prototypes are manufactured at ITC, or if required, in cooperation with local machine shops.

* CUSTOM DATA ACQUISITION

ITC provides solutions to automate data collection and control processes using National Instruments hardware and LabView software.

* NOISE MEASUREMENT AND CONTROL

ITC can identify and analyze excessive noise problems in the workplace and develop noise control solutions. We also perform building acoustic studies, and environmental assessments of noise levels using SoundPLAN noise modelling software.

* VIBRATION MEASUREMENT AND CONTROL

We help determine the causes of excessive vibration in equipment and structures and identify remediation measures. This service is valuable for product testing, equipment balancing, acceptance testing for compliance to vibration tolerance limits, and measurement and analysis of vibration from hand tools and other devices.

* CUSTOM ENGINEERING

ITC assembles teams to troubleshoot processes and equipment, carry out complex engineering projects, design and fabricate custom testing equipment, or develop other innovative technical solutions.

The market for Engineering services is primarily manufacturing companies in Manitoba. SCC and CLAS accreditations, ISO 9001 registration, and rapid turnaround times are distinct competitive advantages.

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“ ITC has helped us reduce rejected parts and rework by verifying specifications for designs. ”

Client survey response

1 Agency Profile

Document Examination Services (DES)

Document Examination Services provides security and quality assurance evaluations of instant scratch off and break open lottery tickets, customized research programs to assist lotteries in evaluating new products and technologies, and evaluations of questioned documents.

Services are provided to lottery jurisdictions in Canada, the U.S. and overseas. ITC is the sole commercial Canadian laboratory providing these services.

Virtual Reality Centre (VRC)

The Virtual Reality Centre is a state-of-the-art facility that uses virtual modelling technology to facilitate improved:

- Product design and development, process re-engineering, urban planning, and architectural design
- Product marketing
- Development of software for specific engineering applications

The VRC is the only one of its kind in Canada that has been established to address industry needs on a fee for service basis. The Centre is designed to provide access to technologies that will enable companies to attain a competitive advantage in global markets.

Industrial
Technology
Centre

Relocation to Smartpark

ITC relocated to Smartpark on November 1, 2005 so that ITC and the University of Manitoba can work more closely together. This will enhance research and training partnership opportunities between industry, government and academia.

Relocation of ITC complements advanced technology organizations located at Smartpark and furthers its development, thereby helping the Province achieve its innovation goals. Smartpark was created to bring together organizations involved in the development and application of advanced technologies. This approach creates clusters involved in sectors such as biotechnology, information and communication technology, and advanced manufacturing and materials.

The establishment of Smartpark at a location near the University of Manitoba fosters strong linkages with the research and education community. A number of advanced technology companies have located here, and ITC will fill a gap in the area of advanced manufacturing and materials. ITC is currently leasing space to the Composites Innovation Centre (CIC).

ITC's presence at Smartpark will help enhance the training and skill development of students, create new opportunities for funding support, and contribute to increased research and development between the University of Manitoba and Industry. Improved partnerships at the University will foster innovation and the adoption of advanced technologies and increase technology commercialization opportunities.

ITC is partnering with the Canadian Manufacturers and Exporters (CME) in the delivery of training such as "Lean Product Development". This is part of the Advanced Manufacturing Initiative (AMI), a multi-stakeholder program to help Manitoba manufacturers improve their productivity.

“ Puratone required inspection of a wall inside a pig effluent tank. ITC's Engineering Services determined the problem. Puratone is very happy with the services that were offered. ”

Dr. Shokry Rashwan, Puratone Corporation



2 Performance Review

2.1 Sector Highlights

ITC made a significant impact in many different sectors during FY 2005/2006. Some sample projects are highlighted below:

Aerospace

Calibration, inspection, material testing, and vibration measurement support our clients' quality control systems, and contribute to improved design and safety.

- Conducted ASTM testing of high-strength materials.
- Load verification of an in-process riveting machine.
- Measured the housing of a helicopter engine component using a fixed coordinate measurement machine.
- Evaluated the quality of welds for a local custom fabricator of aerospace components.
- Tested corrosion resistance of new materials and coatings used in aircraft components.

Agribusiness and Food

Material testing, inspection, and machine design services result in the development of innovative products.

- Measured surface roughness of tanks to prevent adhesion.
- Conducted stress analysis modelling of a cultivator.
- Inspection of a pig effluent tank for a pork producer.
- Analysis of a baler roller for a farm equipment manufacturer.

- Strain gauging and testing of a tractor frame during simulated operation to determine points of overloading.
- Conducted noise measurement in a grain test laboratory to confirm work environment met regulations.

Building, Architecture and Construction

Noise and vibration analysis, material testing, and visualization improve design and enable prevention and remediation of problems.

- Completed phases 1 and 2 of a project for modelling a portion of Manitoba Hydro's downtown office building.
- Investigated and measured sound transmission through an adjoining wall in a historic loft condominium development for a local homebuilder.
- Performed ultimate load testing of jack stands for a heavy construction company as part of their safety program.
- Onsite anchor capacity testing for building refurbishment.
- Building vibration analysis for a local consultant.

Energy

Data acquisition, calibration, machine design, noise analysis and material testing support Manitoba Hydro's infrastructure.

- Material testing of tower insulators.
- Modifications to a vibration recorder, used on a hydro transmission line.
- Tested the properties of materials used in transmission towers.

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“ ITC has helped with reduced cycle time on calibrations - they do it a lot faster. ”

Client survey response

2 Performance Review

Environment and Resources

Material testing, Finite Element Analysis, and noise control services improve equipment used in the resource sector, and remediate noise problems.

- Strain gauged and field-tested a drilling vehicle to quantify and validate design requirements for a fabricator of mining and drilling equipment.
- Travelled to remote site and performed vibration measurements on a drilling rig to supplement a manufacturer's design review.
- Integrated a soil-testing machine into an existing data acquisition system for a provincial soil laboratory.

General Manufacturing

All engineering services support clients' quality systems, improve products and processes, enhance productivity, and foster the adoption of advanced technology.

- Weld inspection of a fan assembly for a ventilation equipment manufacturer.
- Measured the fine features of animal medicine injection needles for a manufacturer of veterinary products.
- Custom impulse testing of rod assemblies for a manufacturer of pumps, hydraulic cylinders, and custom metal castings.
- Conducted salt fog testing to determine the corrosion resistance of paints.

Health

Product development services improve the design of equipment and processes used in the health sector.

- Created software to provide automation of data analysis for heart rate variability in live animal research.
- Worked with Manitoba Institute of Cell Biology to pilot the Manitoba Visualization Network to enable collaboration across MRNet.
- Developed a concept for a diabetes research database design.

Public Infrastructure

Engineering and VRC services help support public infrastructure through improved design.

- Continued discussion with the Manitoba Floodway Expansion Authority (MFEA) to determine how the VRC could be used to model portions of an expanded floodway.
- Completed noise measurement survey for a school band music room.

Transportation

Custom data acquisition, dimensional calibration and inspection, material testing, and noise control services support clients' quality systems, evaluate components, and improve products and processes.

- Inspected bonding bushings for a local bus manufacturer to ensure components met specifications.
- Conducted window testing to ensure they conformed to motor vehicle safety standards.
- Performed lap shear adhesion testing to qualify adhesives in vehicle applications.
- Pressure cycle test on gas cylinders for a bus manufacturer.
- Performed a noise emission comparison assessment of a variety of radius rods.

“ Their staff is qualified and very knowledgeable. ”

Client survey response



2 Performance Review

- Tested gas strut load versus displacement for two bus companies.
- Vibration measurement of bus engine exhaust bellows.
- Measured plant floor vibration for a bus manufacturer to determine the requirements for a vibration isolator for precision equipment.
- Assisted a bus manufacturer test various materials used in an axle mount to reduce interior noise.

Wood Products

Dimensional inspection, material and product testing services support product improvement.

- Testing of particleboard properties for a furniture manufacturer.
- Furniture tip testing to ASTM standards.
- Temperature and humidity testing of furniture items.

Partnerships in Research and Development

- Continuing to participate in the establishment of the I-CAN (Innoventures Canada) Network, along with three other provincial research organizations. I-CAN is a “virtual network” providing companies access to specialized facilities and expertise for technology development.
- Participating in Precarn, an independent, not-for-profit, member-owned company, founded in 1987 to support the development and use of advanced enabling technologies by Canadian firms.
- ITC is a key proponent in the development of the Manitoba Visual Network (MVN), which is a network that will enable researchers from a variety of organizations in Manitoba to undertake collaborative visualization projects.

- The Industrial Technology Centre’s (ITC) move to Smartpark has created new opportunities to broaden the use of visualization throughout the province. At Smartpark, ITC’s Virtual Reality Centre (VRC) has the ability to access the Manitoba Research Network and thus CANARIE, the national link to the international research network. Various locations supporting medical research, private companies in the biomedical and manufacturing sectors, government departments and agencies and researchers in many disciplines will be able to take advantage of distributed advanced visualization technology.

Training and Skill Development

- University of Manitoba students have utilized ITC testing facilities in support of their projects.
- Hosted meeting of the Advisory board of Red River College’s Mechanical Engineering Technology program.
- Delivered training in lean product development to Manitoba industry.

Technology Awareness

- Conducted numerous technology awareness sessions and workshops, including:
 - Introductory and advanced coatings
 - Intellectual property and technology commercialization
 - Factory digitization
 - Lean product development
 - Nanocomposites
- As part of ITC’s Library and Technical Information Services, produced monthly issues of the Innovation & Technology Watch, as well as advanced manufacturing newsletters.

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“ They always work very well with us and have met our deadlines, the reports have been excellent, and their charges for their services are reasonable. ”

Client survey response

2 Performance Review

2.2 Results

ES&T supports ITC for its economic development activities under the Economic Development Contribution Agreement (EDCA). In accordance with specified performance areas, customer and economic development impacts are measured using in-depth interviews with representative clients.

Performance Areas and Goals

Economic Development

- To support and contribute to economic development in Manitoba

Customer

- To sustain and enhance client relationships by providing high-quality, valued technical services

Internal Business Processes

- To identify and apply appropriate technologies

Learning and Growth

- To cultivate a work environment that promotes employee achievement, creativity, initiative and growth

Financial

- To achieve long-term economic viability

Economic Development

ITC clients reported the following impacts in FY 2005/2006:

Impact of ITC Services

New Jobs Created

- 40

Jobs Saved/Maintained

- 1,490 The total of 1,530 jobs created or saved represents \$58.8 million in wages based on an average annual manufacturing salary of \$38,446 (March 2006, Manitoba Bureau of Statistics).

Sales Increase

- \$8.9 million

Cost Savings Identified

- \$0.8 million

Influence on Client Objectives

- 92% of respondents reported that ITC had a positive impact on their organization.

These results are compiled from 72 client responses. No attempt has been made to extrapolate the impacts for ITC's entire project client base (approximately 300 clients).

Customer

ITC maintains a system for capturing specific client satisfaction and other information, and results indicate very high satisfaction with our overall project performance.

- Since inception as an SOA, 95% of clients report that ITC has had a positive impact and contributed towards their goals.

"They provide excellent service. Lots of equipment to choose from and their staff were extra helpful and professional, providing a composite material lab for material testing."

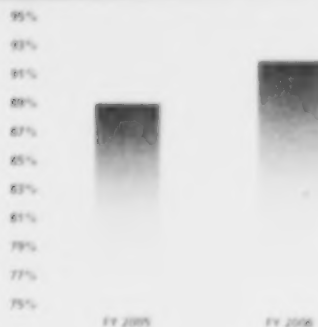
Client survey response



2 Performance Review

Clients reporting significant impacts at their organization, as compared to the prior year:

Client Satisfaction Results



ITC's customer base consists of the following:

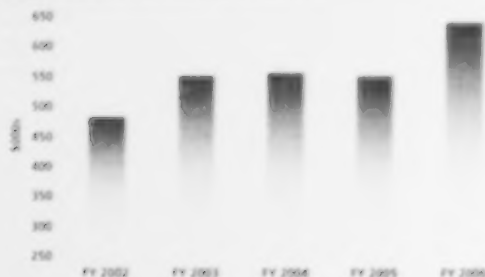
Customer Profile



SMEs (small and medium-sized enterprises) include manufacturers with fewer than 50 employees, consulting engineers, small service organizations and individual entrepreneurs.

The client revenue for Engineering services has increased over the last five years as indicated by the following chart:

Engineering Revenue



ITC management met with target sector clients during the year to help determine their needs and how ITC services may support them.

Internal Business Processes

ITC continues to maintain ISO 9001 registration, with the following quality policy:

"The Industrial Technology Centre (ITC) will provide cost-effective, value-added technical services which will meet the commitments made to its customers."

ITC is implementing its strategic priorities in support of Provincial goals outlined in its "Innovation Framework". ITC's core and emerging priorities are as follows:

- Fostering technology-based economic growth
- Business development to support economic development activities
- Participating in the Advanced Manufacturing Initiative (AMI)
- Increasing the emphasis on links to the education system
- Increasing the emphasis on research and development
- Increasing technology awareness

Other miscellaneous items include:

- Relocated to Smartpark November 1, 2005.
- Upgraded software and equipment in the areas of design and analysis, and noise and vibration to increase our capabilities and better meet customer requirements.
- Maintained Standards Council of Canada (SCC) accreditation in the materials testing laboratory, and Calibration Laboratory Assessment Service (CLAS) accreditation for the calibration laboratory.

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"They always work very well with us and have met our deadlines. The reports have been excellent."

Client survey response

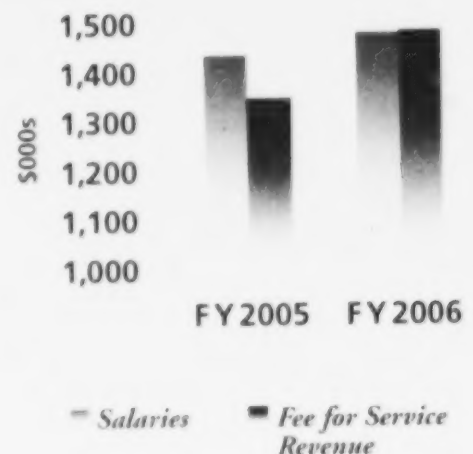
2 Performance Review

Learning and Growth

- ITC's Work Environment Committee (WEC) continues to help ensure the contribution of all staff towards a positive work environment and successful business operations.
- ITC continues to recognize the contribution employees have made through awards for excellence and long-term service, and conducting team-building exercises.
- ITC has undertaken significant professional development activities in the past year including training in analysis and design software, testing, and project management.

Fee for service revenue has increased by 10.1% over the last year, compared to a 3.2% increase in salaries. This demonstrates an increased utilization of resources at ITC due to increased project work.

Fee for Service Revenue vs Salaries



Financial

ITC has now completed its tenth year of operation as an SOA. Financial results show a net loss for the year, arising from a reduction in Provincial funding and relocation costs. ITC has focused efforts on expanding client reach, project opportunities and reducing expenditures.

(\$000s)	Current Year	Prior Year	Variance to Prior Year
Province of Manitoba	600	450	150
Fee for service	1,486	1,350	136
Other	105	47	58
Total revenue	2,191	1,847	344
Salaries and benefits	1,481	1,435	46
Other operating expenses	870	761	109
Total operating expenses	2,351	2,196	155
Net income (loss)			
before relocation	(160)	(349)	189
Relocation costs	123	-	123
Net income (loss)	(283)	(349)	66

“ ITC has possibly the only publicly available collection of its kind in Canada. ”

Client survey response



2 Performance Review

The increase in other operating costs arose primarily from building maintenance (due to higher common area costs and costs incurred upon vacating the location at 1329 Niakwa Road, as required under that lease), computer (the increased cost reflects the implementation of system improvements, as well as an outsourcing of computer support), and rent and property tax (due to increased costs at Smartpark; a portion of these costs have been recovered from subtenants and is included in other revenue). Relocation costs are the period expenses related to the move to Smartpark; leasehold improvements have been capitalized.

The relocation to Smartpark was funded entirely by ITC's internal cash resources and included moving costs as well as leasehold improvements and equipment, reduced by the sale of fixtures at the old location. Total expenditures are summarized as follows:

The results given in this annual report for FY 2005/2006 indicate that ITC has continued to demonstrate sound management, and has achieved recognition for the value and impact of its economic development activities. With the continued support of all stakeholders, ITC will meet the challenges resulting from an ever-changing business environment.

(\$000s)	Expenditure
Equipment (capital)	50
Leaseholds (capital)	186
Relocation (expense)	123
Gain on disposal (other revenue)	(30)
Total expenditures	329

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"We are very pleased with the great service and attention to detail that the Tech Centre offers our company. All of your employees that I have had contact with always present a confident and professional manner in our mutual goal of certified product." *Jerry Hark, Atlas Tube*

3 Management Report

May 16, 2006

The accompanying financial statements of the Industrial Technology Centre are the responsibility of management and have been prepared by ITC in accordance with Canadian generally accepted accounting principles. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to May 16, 2006.

Management maintains internal controls designed to indicate responsibility, provide reasonable assurance of the reliability and accuracy of the financial statements, and properly safeguard ITC's assets.

The responsibility of the external audit is to express an independent, professional opinion lending assurance and objectivity as to whether the financial statements of ITC are fairly presented in accordance with Canadian generally accepted accounting principles. The auditors' report outlines the scope of the audit examination and provides the audit opinion.

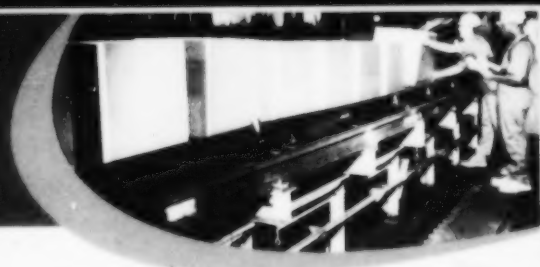
On behalf of management,

Trevor Cornell
CHIEF OPERATING OFFICER

David Olafson
MANAGER, CORPORATE SERVICES

“ ITC has helped us increase labour efficiencies
by reduction of the noise level for the worker. ”

Client survey response



4 Auditors' Report

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of the Industrial Technology Centre as at March 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants
WINNIPEG, MANITOBA
MAY 16, 2006

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5 Financial Statements

As at March 31, 2006

	2006	2005
ASSETS		
Current		
Cash and funds on deposit with Minister of Finance net of working capital advance (note 3)	\$ -	\$ 615
Accounts receivable	198	248
Prepaid expenses	41	18
	239	881
Due from Province of Manitoba (note 4)	103	103
Capital assets (notes 2 and 5)	737	481
	\$ 1,079	\$ 1,465
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 255	\$ 364
Severance liability (note 6)	198	192
	453	556
EQUITY		
Contributed equity (note 7)	62	62
Retained earnings	564	847
	626	909
	\$ 1,079	\$ 1,465

The accompanying notes are an integral part of these financial statements.

5 Financial Statements

For the year ended March 31, 2006

	2006	2005
REVENUE		
Province of Manitoba	\$ 600	\$ 450
Fee for service	1,486	1,350
Other	105	47
	2,191	1,847
OPERATING EXPENSES		
Advertising and promotion	56	81
Amortization	152	142
Audit and legal	5	10
Bad debts	4	3
Building maintenance	55	38
Computer	45	20
Equipment	31	21
Fees and memberships	22	20
Insurance	48	50
Library operations	45	33
Loss on disposal	14	—
Office	59	54
Professional development	22	24
Project supplies and subcontract	65	70
Purchased services	4	13
Rent and property tax	186	121
Salaries and benefits	1,481	1,435
Travel	20	24
Utilities	37	37
	2,351	2,196
Net earnings (loss) before relocation costs	(160)	(349)
Relocation costs	123	—
Net earnings (loss)	(283)	(349)
Retained earnings at beginning of period	847	1,196
Retained earnings at end of period	\$ 564	\$ 847

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The accompanying notes are an integral part of these financial statements.

5 Financial Statements

For the year ended March 31, 2006

	2006	2005
Cash derived from (applied to):		
OPERATING ACTIVITIES		
Net earnings (loss)	\$ (283)	\$ (349)
Items not involving cash		
Amortization	152	142
Loss on disposal	14	-
	(117)	(207)
Changes in non-cash working capital balances		
Accounts receivable	50	(14)
Prepaid expenses	(23)	(1)
Accounts payable and accrued liabilities	(109)	75
Severance liability	6	16
	(193)	(131)
INVESTING ACTIVITIES		
Acquisition of capital assets	(422)	(101)
Net increase (decrease) in cash and cash equivalents	(615)	(232)
Cash and cash equivalents at beginning of period	615	847
Cash and cash equivalents at end of period	\$ -	\$ 615
Represented by:		
Cash and bank	\$ -	\$ 25
Funds on deposit with the Minister of Finance	-	590
	\$ -	\$ 615
Interest revenue included in cash flow from operating activities	\$ 9	\$ 15

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements*For the year ended March 31, 2006***1 Nature of Organization**

The Industrial Technology Centre (ITC) was established in 1979 under "Enterprise Manitoba", a joint Federal/Provincial cost-shared funding agreement. ITC was managed by the Manitoba Research Council until September 1992 when responsibility for ITC was transferred to the Economic Innovation & Technology Council (EITC). ITC was created as a technical resource for Manitoba industry and government and continues to provide a wide range of technical services to both the private and public sectors.

Effective April 1, 1996, ITC was designated as a Special Operating Agency under The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M., and operates under a charter approved by the Lieutenant Governor in Council. ITC operates as part of Manitoba Energy, Science and Technology under the general direction of the Deputy Minister.

ITC is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances ITC through working capital advances. The financial framework allows the Agency to operate in a business-like manner, which is facilitated by SOA status.

A Management Agreement between SOAFA and the Minister of Energy, Science and Technology assigns responsibility to the Agency to manage and account for the Agency-related assets and operations on behalf of SOAFA.

An Economic Development Contribution Agreement between ITC and Manitoba Energy, Science and Technology defines expected public policy benefits generated from ITC's operations.

ITC has full delegated authority for all administrative, financial and operational matters. This delegation is subject to any limitations, restrictions, conditions and requirements imposed by legislation or by the Minister.

2 Significant Accounting Policies*** BASIS OF REPORTING**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles.

*** CAPITAL ASSETS**

Capital assets are recorded at cost. Amortization, intended to write off the assets over their estimated useful lives, is recorded at the following annual rates and methods:

Furniture and fixtures

- 20%, declining balance

Office and laboratory equipment

- 20%, declining balance

Computer equipment and software

- 20%, straight-line

Leasehold improvements

- 10%, straight-line

*** FINANCIAL INSTRUMENTS**

The Agency's financial instruments consist of cash and funds on deposit, accounts receivable, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise noted.

*** REVENUE RECOGNITION**

Province of Manitoba funding is recognized over the term for which it applies. Fees for service are recognized as the service is performed.

*** USE OF ESTIMATES**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

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Notes to Financial Statements

For the year ended March 31, 2006

7 Working Capital Advance

The Agency has an authorized line of working capital advances up to a maximum of \$300. As at March 31, 2006 working capital advances were nil (2005 - nil). The line bears interest at prime less 1% and is not secured by specific assets.

8 Due from Province of Manitoba

The Province has accepted responsibility for the severance benefits accumulated by ITC's employees to March 31, 1998. Accordingly, the opening severance pay liability balance as at April 1, 1998 calculated at \$103 was completely offset by a receivable from the Province. The receivable from the Province, or portion thereof, for the Industrial Technology Centre, will be collected in the event there is a cash shortfall. However, this is only likely to happen on the dissolution of the Industrial Technology Centre.

9 Capital Assets**6 Severance Pay Benefits**

Effective April 1, 1998, the Agency began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. The Industrial Technology Centre's actuarially determined net liability for accounting purposes as at March 31, 2006 was \$198 (2005 - \$192). Commencing in the 2006 fiscal year the actuarial gain of \$76 is being amortized over the 15 year expected average remaining service life of the employee group.

	2006		2005	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 10	\$ 3	\$ 4	\$ 3
Office and laboratory equipment	932	581	829	513
Computer equipment and software	592	393	466	321
Leasehold improvements	186	6	49	30
	\$ 1,720	\$ 983	\$ 1,348	\$ 867
Net book value		\$ 737		\$ 481

Notes to Financial Statements*For the year ended March 31, 2006***Contributed Equity**

A Transfer Agreement between the Special Operating Agencies Financing Authority (SOAFA) and Manitoba effected a transfer of capital assets, current assets and current liabilities from Manitoba to SOAFA as at March 31, 1996. Net assets in the amount of \$124 were transferred to continue the operations of ITC. ITC has repaid SOAFA the debt portion of \$62 (50% of the value of the net assets) and recorded the remaining \$62 (50% of the value of the net assets) as Manitoba's equity in SOAFA as related to the Agency's operations.

Commitment

The Agency relocated to Smartpark, near the University of Manitoba, on November 1, 2005.

The Agency has entered into a lease agreement for the rental of a new building at Smartpark, with space of 24,118 square feet. Of this space, ITC will occupy 19,032 square feet, with 5,086 square feet being sublet to the Composites Innovation Centre (CIC). Occupancy costs pertaining to the CIC will be recoverable from them. This ten-year lease requires future lease payments as follows:

	ITC	CIC	Total
Year 1	\$ 161	\$ 43	\$ 204
Year 2	170	46	216
Year 3	180	48	228
Year 4 - 10	189	51	240

Pension Benefits

In accordance with the provisions of The Civil Service Superannuation Act, employees of the Centre are eligible for pension benefits under the Civil Service Superannuation Fund. This pension plan is a defined benefit plan, which requires the Centre to contribute an amount equal to the employee's contribution to the Fund for current services. The amount contributed and expense by the Centre for 2006 is \$73 (2005 - \$68).

The Centre has no further liability associated with the annual cost of pension benefits earned by the Centre's employees.

Related Party Transactions

The Agency is related in terms of common ownership to all Province of Manitoba created departments, agencies and Crown corporations. The Agency enters into transactions with these entities in the normal course of business.

Public Sector Compensation

Pursuant to The Public Sector Compensation Disclosure Act, employees of ITC who have received compensation of \$50 or more, including benefits and severance payments, in the year ended March 31, 2006, are disclosed in the Special Operating Agency Financing Authority (SOAFA) annual report. This compensation information is also available in ITC's Library.

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"They're a pretty innovating group and they're responsive to solving technical problems."

Client survey response

Appendix 1 Staff as at March 31, 2006

Diane Chicheluk

Trevor Cornell, B.Sc. (Hons.,
M.E.), C.Eng., P.Eng.

Betty Dearth, B.A., M.I.L.S.

Sandra Fotty, B.A.

Danny Fredette, Journeyman
Machinist

Daniel Godin, Dip. Mech. Eng.
Tech., C.E.T.

Sandra Graff

Dale Kellington, B.Sc.

Dragomir Kojic, C.E.T.

Judith Lesprance

Shawna Levesque, Clerical
Bookkeeping Certificate

Stephen McKendry-Smith,
Dip. Biological Tech.

David Olafson, B.Sc., B.
Comm. (Hons.), C.G.A., C.C.P.

Jeongsoo Park, B.Sc., M.Sc.,
Ph.D. (M.E.), P.Eng.

Tim Peters

Gord Pizey, B.Sc. (M.E.), M.Sc.,
P.Eng.

Sharon Ratushniak

Tony Robak, Millwright,
C.Tech.

David St. Jean, Management
Studies Certificate

Myron Semegen, C.E.T.

Michael Thomlinson, B.Sc.
(M.E.), M.Sc. (I.E.), P.Eng.

Appendix 2 Advisory Board

John Clarkson
(CHAIRPERSON)
DEPUTY MINISTER
Energy, Science and
Technology
Room 349 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Ken Carr
REPRESENTING THE
MANITOBA AEROSPACE
ASSOCIATION INC.
51 Woodgreen Place
Winnipeg, Manitoba
R3J 1H4

Roy Cook
EXECUTIVE VICE PRESIDENT
Monarch Industries Limited
51 Burmac Road, P.O. Box 429
Winnipeg, Manitoba
R3C 3E4

Richard Krohn
PALLISER FURNITURE LIMITED
Import Division
770 Pandora Avenue East
Winnipeg, Manitoba
R3C 2N1

Al MacAtavish
MANITOBA HYDRO (RETIRED)
P.O. Box 127J, RR5
Winnipeg, Manitoba
R2C 2Z2

Paul Soubry L.L.D. (Man.)
63 Ridgedale Crescent
Winnipeg, Manitoba
R3R 0B2

Ed Van Humbeck
DIRECTOR
Vansco Electronics Ltd.
103 Kinkora Drive
Winnipeg, Manitoba
R3R 2P5

Trevor Cornell
CHIEF OPERATING OFFICER
Industrial Technology Centre
200-78 Innovation Drive
Winnipeg, Manitoba
R3T 6C2

Stephen McKendry-Smith
STAFF REPRESENTATIVE
Industrial Technology Centre
200-78 Innovation Drive
Winnipeg, Manitoba
R3T 6C2

Industrial
Technology
Centre



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www.itc.mb.ca

Industrial **Technology** Centre

200-78 Innovation Drive
Winnipeg, Manitoba • R3T 6C2

PH: 204•480•3333

1•800•728•7933

FAX: 204•480•0345